

REVENUE DESCRIPTIONS, HISTORICAL TRENDS, AND PROJECTIONS

Early in the budget process each revenue account from every accounting fund is analyzed by reviewing historical trends and comparing these trends to current economic forecasts. The analysis of historical revenue trends is utilized, in conjunction with an analysis of national and regional economic forecasts, to project revenues for the fiscal years included in the biennial budget. The revenue projections are then used to set expenditure budget spending limits for the operating departments of the Village. This process of projecting revenues and then using those projections to set spending limits is a key component to maintaining fiscal discipline.

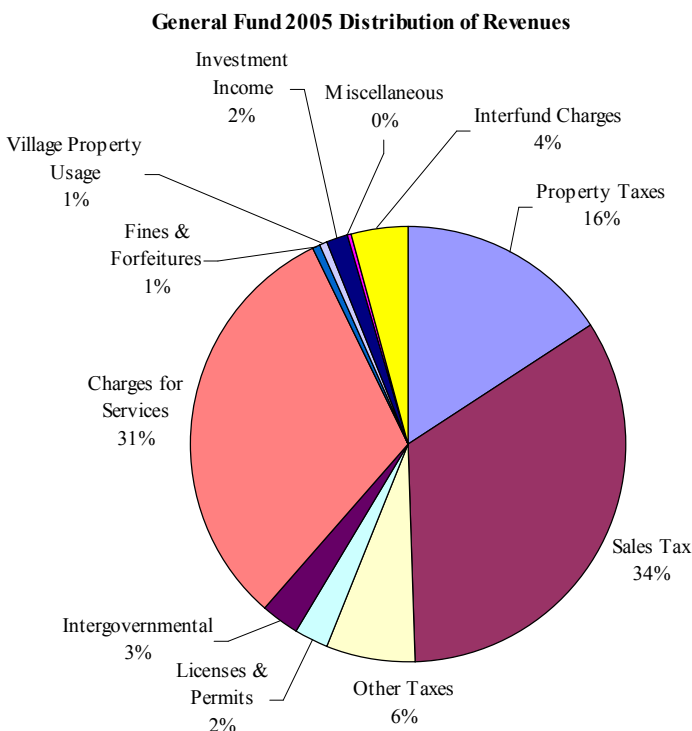
The following pages include descriptions, historical trends, and projected revenues in 2005 and 2006 for major revenue sources. A major revenue source is defined as a single revenue source, or class of related revenue sources, that provides a Fund with a minimum of 10% of its total financial resources or generates more than \$500,000 in revenue. The revenue sources profiled in this section comprise 83.81% of total Village revenues in 2005 and 84.43% of total revenues in 2006.

General Fund

In terms of revenues and expenditures, the General Fund is the largest fund of the Village and it receives its revenues from the widest variety of sources and revenue types. During the period from 1997 to 2000, General Fund revenues were growing at a pace that exceeded expenditures, primarily due to significant increases in Sales Tax and State Shared Revenues. In 2001, however, this rapid growth in revenues ended due to deteriorating national and regional economic conditions. In 2002, revenue receipts actually declined and the

General Fund experienced a deficit and had to utilize a portion of its Fund Balance to offset expenditures. In 2003, General Fund revenues recovered somewhat from the 2002 decline in revenues. However, the recovery was not a return to the rapid growth in revenues experienced during the 1997 – 2000 period, instead, revenues slowly increased as the national and regional economies recovered from the economic stress experienced in 2001 and 2002.

The slow pace of growth in General Fund revenues is expected to continue in 2005 and 2006. As detailed in the economic summary (*please see Page 67-70*), the Village is projecting steady economic activity in 2005 and 2006 and is therefore projecting measured increases in the majority of General Fund revenues.



In terms of the distribution of revenues in the General Fund, the majority of revenue (*approximately 86%*) is derived from four sources, Sales Tax, Charges for Services, Property Taxes, and Other Taxes. Each of these sources (*or the major revenues if the source is a category such as Charges for Services*) is further explored in the following sections. In addition, the following sections will explore Interest Income as this source of revenue has generated more than \$500,000 in recent fiscal years.

General Fund - Real Estate Property Taxes

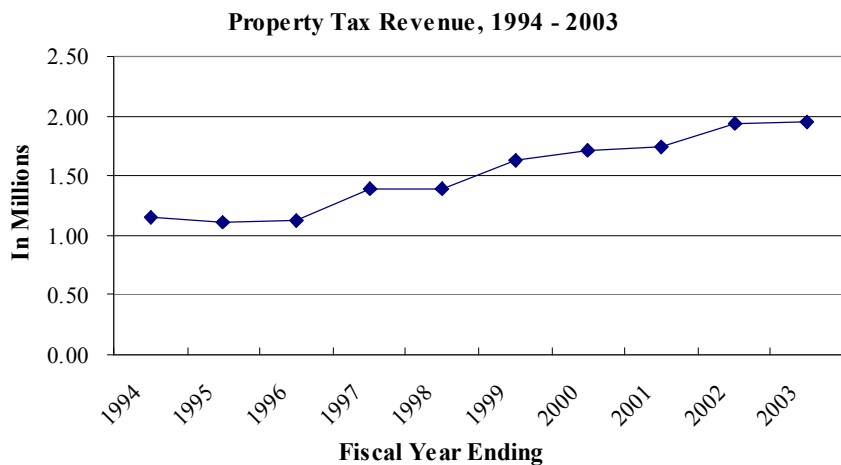
Description – Real Estate Property Taxes are levied by the Village on all of the real property located within the corporate boundaries of the Village.

Source – All real property located in the corporate boundaries of the Village. The methodology for assessing property and levying taxes is established by the State of Illinois. In Lake County, all property (Industrial, Commercial and Residential) is assessed at one-third (1/3) of its market value. In Cook County, Industrial and Commercial properties are assessed at a higher percent than residential properties. Calculations are done annually to determine if property within a geographical area is assessed at an appropriate percent of market value. If not, an equalization factor is applied to the assessed value of the property; the application of this equalizer establishes the equalized assessed value of the property. The equalized assessed value of the property is then divided by 100 and multiplied by the Property Tax Rate, which generates the taxes owed. Additional regulations established by State Statute, including rate limits and tax caps, also apply to non-home rule municipalities such as Barrington.

Elasticity – Property Taxes can be classified as an inelastic revenue source because they are reliant on the underlying value of the real estate that is located in the Village (*real estate values are inelastic because they tend to vary in response to long-term economic trends rather than short-term economic variations*).

Utilization – General Fund Property Tax revenues are used to support particular aspects of Village operations as required by State Statute. In the General Fund, property taxes are levied for particular purposes, these include: General Corporate Operations, Police Protection, Police Pension, Fire Protection (*including Fire Pension*), Ambulance Services, Crossing Guards, Audit, Liability Insurance, IMRF retirement, and Social Security retirement.

Trend Analysis – The Village's receipt of Property Tax Revenues has increased steadily during the period from 1995 to 2004. Property Tax Revenues have grown from \$1.111 million in 1995 to a total of \$1.955 million in 2003, a total increase of 73.7% over the ten year period. The annual average compounded growth rate during the ten year period was 5.64%. However, property tax revenues began to level off in 2002 as a result of the "Tax Cap" Statute which is having a negative impact on the growth in the Village's property tax revenue. As a result of this leveling off of property tax revenues, the annual average compounded growth rate during the past five years has only been 3.48%.



The increase in the Village's receipt of property tax revenue has occurred despite the fact that the Village has been steadily lowering the actual operating property tax rate since 1997 (*as demonstrated in the chart on the following page*). In 1997, the Village's operating tax rate was \$.696 per \$100 of assessed value for real estate. From 1998 to 2000, the operating tax rate has been approximately \$.66 per \$100 of assessed value. The operating tax rate decreased to less than \$.65 per \$100 of assessed value in 2001 and to less than \$.60 of per \$100 of assessed value in 2002 and 2003. Property tax revenue receipts have continued to increase despite lower tax rates because of residential development in the Village and increasing values for real estate located in the community. The increase in property values in the Village has coincided with the rise in real estate values throughout the Chicago Suburban area. The trend of increasing real estate property values in the Village is expected to continue as the Village is located in a desirable part of the Chicago Suburban area and will continue to have good schools, attractive open space, quality services, good housing stock, and high land values.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
Property Tax Revenue (Best Case)	N/A	N/A	\$1,968,000	\$2,184,000	\$2,265,000
Property Tax Revenue (Projection)	\$1,890,768	\$1,902,430	\$1,975,000	\$2,170,750	\$2,250,750
Property Tax Revenue (Worst Case)	N/A	N/A	\$1,905,000	\$2,025,000	\$2,150,000

Basis for Projection – Although growth in the Village’s property tax revenues has slowed in recent years due to the constriction imposed by the “Tax Cap” statute, this statute does not apply to new development. The Village is anticipating that several developments (*including the Garlands Senior Housing Development which should add significant value to the Village’s property tax base*) will be added to the property tax rolls in 2004 – 2005. These projects are not subject to Tax Cap limitations and therefore should provide the Village with the opportunity to grow its property tax revenue base at a pace faster than would be possible without the new developments. As a result of the anticipated additions to the Village’s property tax base, the 2005 projection for Property Tax Revenues includes a 9.91% increase and the 2006 projection includes an additional 3.69% increase.

In 2005, the projected possible range for Property Tax revenue is \$159,000 with the bottom of the range being \$2,025,000 and the top end of the range being slightly more than the actual projection used for budgetary purposes at \$2,184,000. This projected range is fairly wide with the majority of the potential range being below the actual projection used in the budget. This is a due to the potential that some developments may not be added to the tax rolls in time for 2005 Property Tax collections which would mean that not all of the anticipated Property Tax Revenue would be received. The projected range in 2006 is \$100,000 with the low end of the range being \$2,150,000 and the high end being \$2,250,000. The range is decreased in 2006 in that it is anticipated that any properties not included on the tax rolls in 2005 will be included in 2006.

General Fund - Sales Tax

Revenue Description – Sales tax is a tax on sales of goods and services by businesses located in the corporate boundaries of the Village.

Source of Revenue – All goods and services sold by businesses located in the corporate boundaries of the Village; the Village receives 1% of the sale price of those goods and services. This 1% is collected by the State of Illinois and remitted to the Village three months after the sale was actually made.

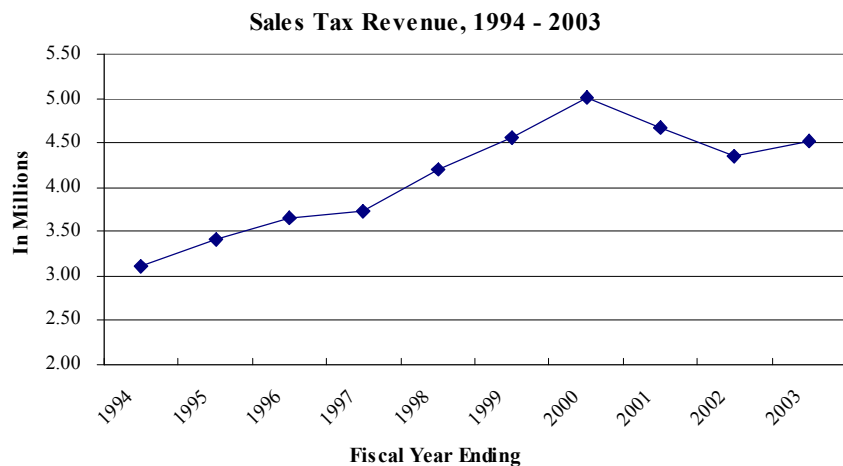
Elasticity of Revenue – Sales Tax is elastic because it is dependent on the value of the goods and services sold by businesses in the Village. The economic environment in the Village, region, State, and Country has a powerful effect on the value and volume of goods and services sold in the Village. The Village's Sales Tax revenue is particularly elastic because it is highly dependent on one industry, the automotive sales industry. In a typical year, automobile sales provide 60% to 70% of the Sales Tax received by the Village.

Uses of Revenue – General Fund Sales tax revenue is used to support the general government operational activities of the Village, it is not designated for any particular purpose.

Trend Analysis – During the late 1990's the Village's Sales Tax revenue began to grow rapidly in response to the rapid economic growth in the regional and national economies. This is especially apparent in the 1998 to 2000 period when Sales Tax revenue grew at an average rate of 10.35%.

In 2001, as the national and regional economies entered a more challenging economic environment, the Village's Sales Tax revenue declined from the high levels it had reached as a result of increases in the late 1990s. The Village experienced a 6.85% decline in 2001 and an additional 6.81% decline in 2002. In 2003, sales tax revenue increased 3.85% as the regional and local economies began to recover from the downturn of the 2001 – 2002 period.

However, this recovery represented a stabilization of revenues and future growth is expected to occur at a much slower pace than the growth experienced in the late 1990s. The recovery in 2003 did not bring Sales Tax back to the level of revenue received in 2000.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
Sales Tax Revenue (Best Case)	N/A	N/A	\$4,575,000	\$4,751,250	\$4,893,000
Sales Tax Revenue (Projection)	\$4,352,592	\$4,531,204	\$4,525,000	\$4,660,000	\$4,800,000
Sales Tax Revenue (Worst Case)	N/A	N/A	\$4,350,000	\$4,525,000	\$4,660,000

Basis for Projected Revenues – As demonstrated by the projection, Sales Tax revenue is estimated to increase 2.98% in 2005 and an additional 3.0% in 2006. This estimate is based on the assumption of steady growth in overall economic prospects for the nation and region. The estimate also reflects the pace of growth experienced in the recovery from the economic downturn which occurred during the period from 1992 through 1994. In addition, the increase is based on several retail developments that are expected to occur within the Village during 2005 and 2006 which should add to the overall Sales Tax base in the community.

General Fund – Other Taxes – State Shared Revenues

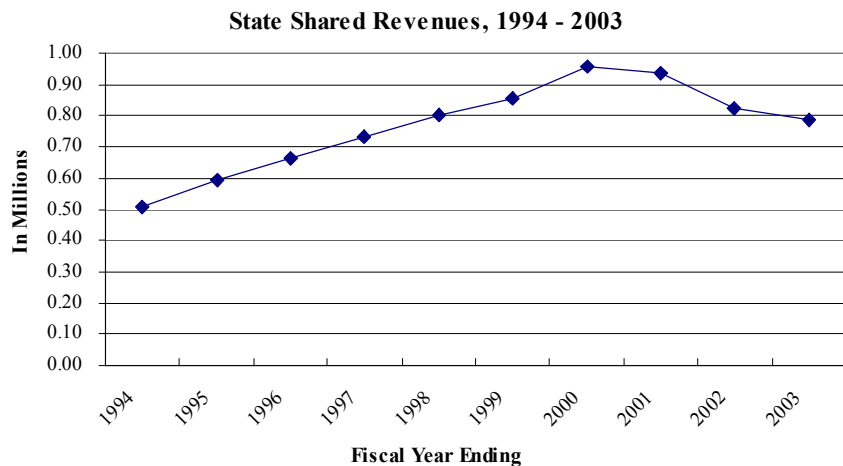
Description – State Shared Revenues are the major component of Other Taxes in the General Fund and include Income Tax, Local Use Tax, and Personal Property Replacement Tax all of which are shared with the Village by the State of Illinois.

Source – The State of Illinois collects Income Tax, Local Use Tax, and the Personal Property Replacement Tax from residents and businesses in Illinois. The State has designated a portion of these tax receipts for municipalities and remits the municipal portion of these revenues to the Village based on its population.

Elasticity – State Shared revenues are elastic because they are dependent on the State's receipt of revenues. Each of these revenue sources is very sensitive to the economic environment because they are based on either individual income (for Income Tax) or purchases by corporations or individuals (for the Local Use Tax and Personal Property Replacement Tax). During economic downturns individual income and purchases both decline thereby causing a corresponding decrease in these revenue sources.

Utilization – State Shared Revenues are utilized to support the general governmental operations of the Village, these revenues are not designated for any particular purpose.

Trend Analysis – During the late 1990's the Village's State Shared Revenues grew rapidly in response to the rapid economic growth of the period. This is especially apparent in the 1998 to 2000 period when State Shared Revenues grew at an average rate of 9.69%. However, in 2001, as a result of the challenging economic environment, State Shared Revenues began to decline. The Village experienced a 1.82% decline in 2001, a 12.45% decline in 2002, and a 4.52% decline in 2003. The decline in 2003 is a result of a one-time deduction from the amount of State Income State shared with municipalities by the State. The State initiated this deduction to assist with the payment of tax refunds; this deduction is not expected to reoccur in 2004.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
State Shared Revenues (Best Case)	N/A	N/A	\$935,000	\$935,000	\$935,000
State Shared Revenues (Projection)	\$880,949	\$835,372	\$890,324	\$891,000	\$891,000
State Shared Revenues (Worst Case)	N/A	N/A	\$845,000	\$845,000	\$845,000

Basis for Projection – In 2004, State Shared Revenues began to recover from the decline that occurred in 2003 and increased to a total of \$890,000. In 2005 and 2006, based on the assumption of a stable economic environment, these revenues are expected to remain at approximately \$890,000. State of Illinois Income Tax receipts have remained relatively flat for the last couple of years and this trend is expected to continue through the end of the biennial budget period. However, as demonstrated in the best case scenario, the Village does recognize the possibility of increased revenues if State Income Tax receipts began to increase. If State revenues increase, it is estimated that the Village could receive up to \$935,000.

General Fund – Charges for Services – Inverness Contract to Provide Police Protection Services

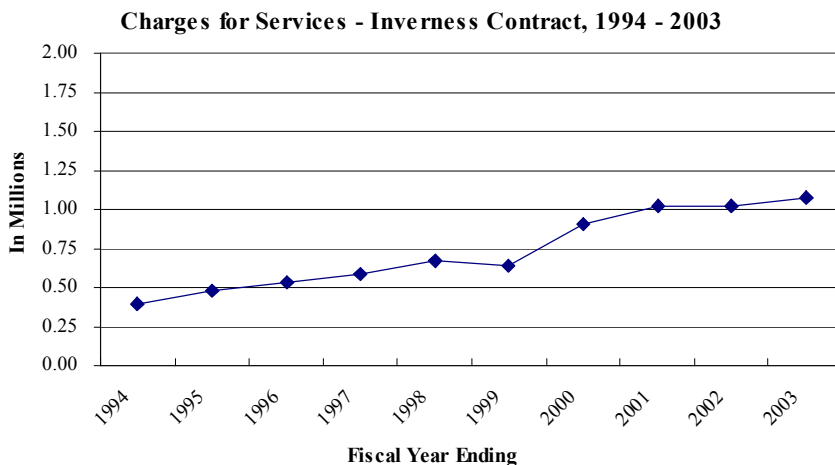
Revenue Description – The Village of Inverness contracts with and pays Barrington for police protection services.

Source of Revenue – Revenues are derived from charges for service which are pre-determined in the established contract between the Villages. Inverness pays for the contract from its general revenues which are derived largely from property taxes.

Elasticity of Revenue – This revenue source is considered to be inelastic because the charges for service have been determined in advance and Inverness is responsible for payment under the contract terms. In addition, Inverness generates a majority of its revenue from property taxes which are inelastic, especially in a community with the quality of housing stock that exists within its corporate limits. Therefore the ability of Inverness to meet its obligation under the contract is assumed.

Uses of Revenue – The Barrington Police Department has a minimum of two Police Officers patrolling Inverness 24 hours per day; the Police Department is also able to maintain a minimum of four patrol officers on duty at all times and thereby respond to emergency situations in greater numbers than it would be able to maintain on its own. The revenue derived from this contract is used to support investigation services as well as the Police Officers assigned to patrol the Village of Inverness. This contract offsets the full cost of salaries and benefits for eleven police officers. The contract also provides additional resources for administrative functions within the Police Department.

Trend Analysis – Charges for Services revenue from the contract with Inverness for police protection services have been steadily increasing, in conjunction with increases in the cost of operating the Police Department and increases in service levels provided under the agreement. The increase has been fairly steady during the entire period from 1994 through 2003, with the largest increase occurring in 2000 due to the commencement of a new service contract which included an upward adjustment in fees and increases in service levels. Since this initial year of the new agreement rates have been fairly stable as evidenced by the attached graph.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
Inverness Charges (Best Case)	N/A	N/A	N/A	N/A	N/A
Inverness Charges (Projection)	\$1,024,336	\$1,074,496	\$1,198,500	\$1,235,850	\$1,274,248
Inverness Charges (Worst Case)	N/A	N/A	N/A	N/A	N/A

Basis for Projection – The projected revenues have been contractually agreed upon by both the Village of Barrington and the Village of Inverness and are therefore predictable.

General Fund – Charges for Services – Barrington Countryside Fire Protection District (BCFPD) Contract to Provide Fire Protection Services

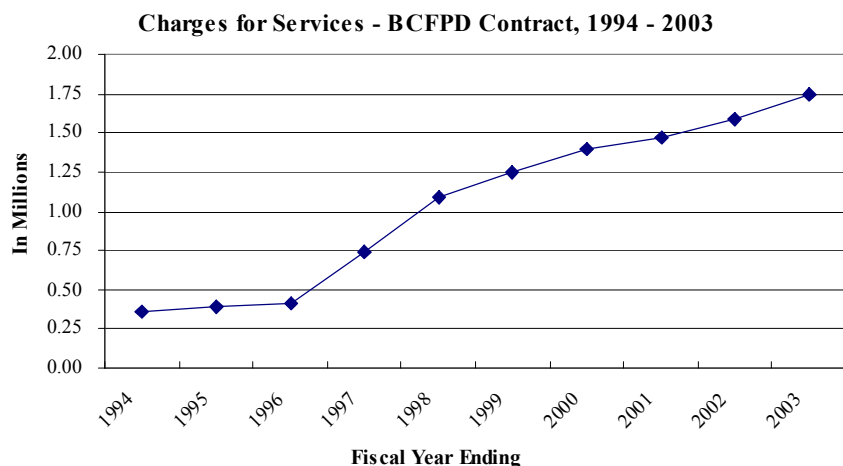
Revenue Description – The Barrington Countryside Fire Protection District contracts with the Village of Barrington to provide fire protection, emergency medical services, and fire prevention services to the residents of the 48 square mile District.

Source of Revenue – Revenues are derived from the contract with the District. The contract establishes a formula for the sharing of shift personnel costs based on a cost center approach (with each station established as a separate cost center) in which costs are allotted based on that respective station's calls for service. Under the current contract most other expenditures are shared 50/50. The District pays its portion of the contract costs from property taxes on real estate located within the District.

Elasticity of Revenue – This revenue source should be considered a combination of inelastic and elastic. The revenue is inelastic because the District pays its portion of the cost from property tax revenue and is therefore capable of meeting its financial obligations under the agreement, assuming adequate financial stewardship. However, the contract can be considered elastic in that the allocation of shift personnel costs is based on the number of calls received by each Station. If the majority of calls in a year come from the Village of Barrington, then the revenue from this contract will be less than if the majority of calls come from the District. The contract has been set up to allocate costs according to service usage which results in variances in the revenue depending on service usage factors.

Uses of Revenue – The Barrington Fire Department is supported by this revenue source as it operates two stations that are primarily intended to provide services to the District. These stations do act as a backup for multiple emergency calls in the Village; however, the Station located in the Village also acts as a backup for multiple emergency calls in either the northern or southern parts of the District. This arrangement provides for the mutual reinforcement of emergency calls in the entire area covered by the District and the Village and provides the benefits of a larger Department at a reduced cost for both the Village and District. The Fire Department utilizes revenues from the District to support the two stations and the personnel needed to staff those stations 24 hours per day.

Trend Analysis – Revenues from the contract for fire suppression, emergency medical, and fire prevention services have increased substantially since 1997, as a result of the opening of Station 2 in Barrington Hills. The opening of Station 2 represented an expansion of services on the part of the District. Previous to the opening of Station 2, all emergency calls were answered from Station 1 in the Village and this led to call response times that were unacceptable to the District. In order to provide the District with the level of service desired, the Village agreed to expand services by manning Station 2. In addition to the expansion of services represented by the opening of Station 2, emergency calls within the District, as a percent of total calls, have been increasing as development in the District has increased the ratio of population and number of structures in the District as compared to the Village. The expansion of services continued with the opening of Station 3 within Lake Barrington.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u> <u>Projected</u>	<u>FY 2005</u> <u>Projected</u>	<u>FY 2006</u> <u>Projected</u>
BCFPD Charges (Best Case)	N/A	N/A	\$2,055,000	\$2,900,000	\$2,950,000
BCFPD Charges (Projection)	\$1,582,923	\$1,749,421	\$1,958,853	\$2,858,002	\$2,914,042
BCFPD Charges (Worst Case)	N/A	N/A	\$1,763,000	\$2,543,622	\$2,593,498

Basis for Projection – The projection for 2005 and 2006 is based on the expenditure budget for the Fire Department and the cost sharing formula included in the current intergovernmental agreement between the Village and the District. The cost sharing formula is based on the number of stations primarily serving the Village or the District (*i.e., 2 station have the District as their primary response area and 1 station has the Village as its primary response area*) and the percentage of calls received by each station from either the District or the Village. The revenue projection for 2005 and 2006 is predicated upon the assumption that the emergency call patterns currently occurring will continue in 2005 and 2006 and therefore the current cost allocations will also continue. If call patterns change (*more Village calls or more District calls*), then the possibility exists that this revenue source will be higher or lower than predicted. This is the reason for the large disparity between the best case and worst case scenarios in the projection. However, the expansion of the population and number of structures in the District will continue to increase in proportion to the Village as the opportunity for commercial and residential development is much greater in the District (*the Village is already built out and the District continues to have available significant greenfield space that could be developed to serve the growing demand for housing and services in the rural area surrounding the Village*). This should shift the number of calls received by the Department to a preponderance of District calls in the future.

General Fund – Interest Income

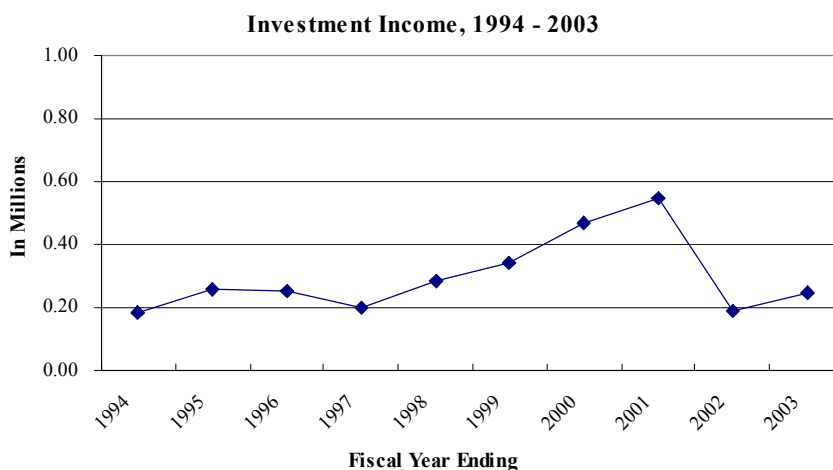
Revenue Description – Investment income is derived from the cash balance of the General Fund which is utilized by the Village to invest in Federal Agency Bonds as well as Certificates of Deposit (CDs). In addition, the Village earns interest from its local checking and money market accounts and from its Illinois Funds money market account (*operated for municipalities by the State of Illinois Treasury*).

Source of Revenue – This revenue is derived from the interest earned on the General Fund's cash balances.

Elasticity of Revenue – This revenue source is elastic because increases or decreases in interest rates have a significant impact on the Village's return on its investments.

Uses of Revenue – Investment Income is used to support the general government operational activities of the Village, it is not designated for any particular purpose.

Trend Analysis – Revenues from investment activities in the General Fund declined in 2002 from a ten year high in 2001. The period of 1994 to 1998 saw relatively stable revenue from this source. In 1999, investment income began increasing as the cash balance of the General Fund increased and interest rates rose as the Federal Reserve Bank sought to control the booming economy. The increases that began in FY 1999 came to an end in 2002 when a steep decline in this revenue source materialized. In 2003, Investment Income began to increase again as the Village invested in Federal Agency Bonds (*all of the Village's investments in Federal Agency Bonds were called in 2002 and this negatively impacted the Village's investment Income as the cash balance had to be reinvested in lower yielding instruments in 2002*) and the General Fund cash balance increased from the previous year.



Projection for 2005 – 2006

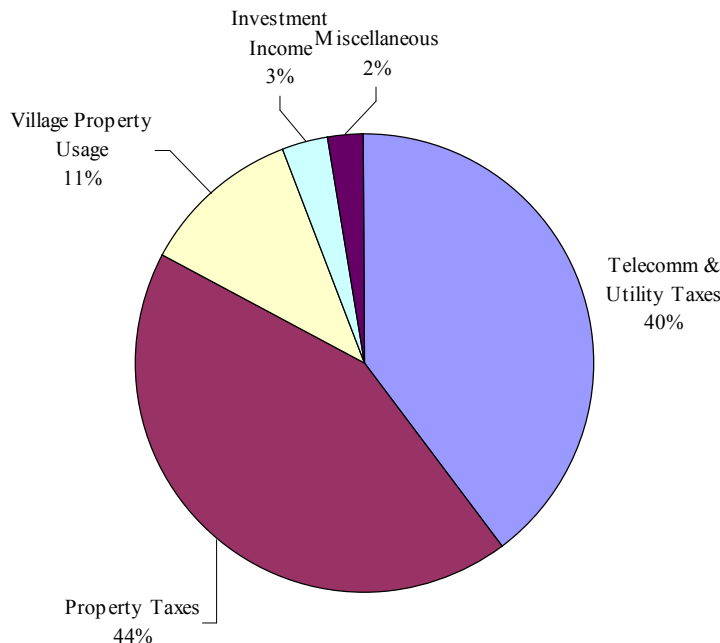
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
Investment Income (Best Case)	N/A	N/A	\$205,300	\$250,500	\$295,000
Investment Income (Projection)	\$190,684	\$246,306	\$195,600	\$238,625	\$281,125
Investment Income (Worst Case)	N/A	N/A	\$185,000	\$226,000	\$267,000

Basis for Projection – The Federal Reserve raised interest rates three times in 2004, bringing the federal funds rate up from 1.00% to 1.75%. This had a positive impact on the Village's return from its money market and checking accounts as the interest rates on these accounts have risen in conjunction with the increase in the Federal Funds Rate. In addition, the Village purchased a number of Federal Agency Bonds in 2003 and 2004 including several interest rate step-up instruments. The rates on these step-up bonds will be increasing over the next couple of years but should not increase to the point where they would be called unless interest rates begin falling. In addition, the General Fund has a large cash balance which the Village will be using to invest in Federal Agency Bonds during the two year period and this should also have a positive impact on Investment Income.

Governmental Funds (Excluding General Fund)

Besides the General Fund, there are three additional governmental funds including the Capital Improvement Fund, the Tax Increment Financing (TIF) Fund, and the Debt Service Fund. The Capital Improvement and TIF Fund were created to accumulate and expend resources for capital improvements. The purpose of the Debt Service Fund is to receive property tax revenues authorized by referendum for the purpose of paying off the

Governmental Funds 2005 Distribution of Revenues



Village's General Obligation Bonds. Major revenue sources in the governmental funds include the Telecommunications and Utility Taxes in the Capital Improvement Fund and property taxes in the TIF Fund and Debt Service Fund. The Capital Improvement and TIF Funds exist to accumulate and expend resources for Capital Improvements; therefore, there are times when revenues exceed expenditures in these Funds and the relationship between revenues and expenditures tends to vary on an annual basis. In some years the Funds will receive more revenues than they expend while in other years major capital improvements will deplete those resources that have been previously accumulated.

In terms of the distribution of revenues in the Governmental Funds, the vast majority of revenues (approximately 84%) are derived from property taxes and other taxes. Each of these sources is further explored in the following sections because each source generates more than \$500,000 in a typical fiscal year.

Capital Improvement Fund – Other Taxes – Telecommunications and Utility Taxes

Revenue Description – Telecommunications, Electricity, and Natural Gas taxes are derived from the use of these utilities by the residents and businesses residing within the corporate boundaries of the Village of Barrington. These taxes were first authorized by the Corporate Authorities of the Village in 2000 as a means to provide a dedicated revenue source for capital improvements.

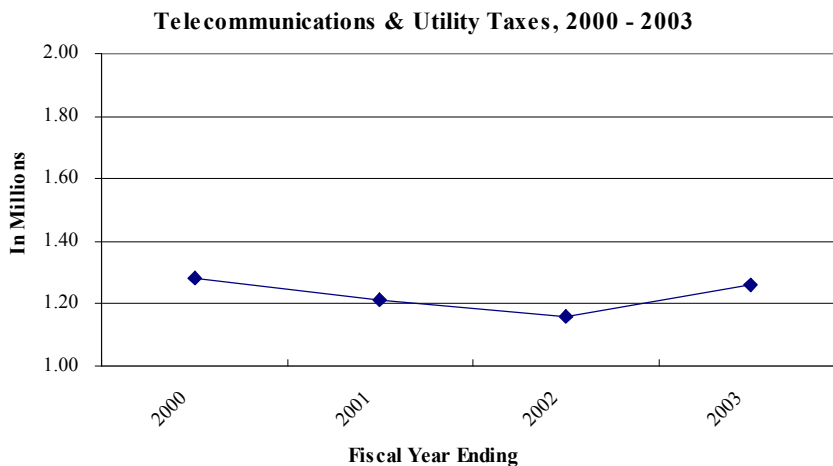
Source of Revenue – These revenues are based on usage of telecommunications, electricity, and natural gas; the tax rate is applied to monthly invoices for residents and business at a rate of 3.86% for electricity and natural gas and 3.50% for Telecommunications.

Elasticity of Revenue – The Village considers these taxes to be elastic because they vary in response to economic or environmental factors. In an economically challenging environment, residents and businesses typically will choose to reduce their reliance on telecommunications or electricity and this impacts the Village's receipt of these revenues. In addition, the weather has a significant impact on the electricity and natural gas utility taxes as mild summers or winters reduces consumption, thereby negatively impacting these revenue sources.

Uses of Revenue – According to the Village Ordinance that authorized these taxes, these revenue sources must be used for the purpose of improving the capital infrastructure in the Village, including streets, sidewalks, storm sewers, and parking improvements. The revenues can also be used to support improvements in business areas

within the Village.

Trend Analysis – The Village has received these revenues for four years and therefore does not have a long history of changes in these revenues. In 2002, a lawsuit was won by a cellular telephone company and this negatively impacted the receipt of Telecommunications tax (*thus the decrease in revenues*). Based on four years of experience with these revenues, they do not seem to be increasing overall as increases in one of the taxes are offset by decreases in another tax. This has the potential to be a worrying trend in the Capital Improvement Fund because the expenditures being supported in this Fund (*i.e., construction costs for capital improvements*) tend to rise at a pace that is faster than that of general inflation.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
Telecomm & Utility Taxes (Best Case)	N/A	N/A	\$1,250,000	\$1,300,000	\$1,300,000
Telecomm & Utility Taxes (Projection)	\$1,159,568	\$1,258,945	\$1,170,000	\$1,240,000	\$1,240,000
Telecomm & Utility Taxes (Worst Case)	N/A	N/A	\$1,125,000	\$1,175,000	\$1,175,000

Basis for Projection – Based on the experience with these revenue sources thus far, the Village is anticipating a small increase from 2004 to 2005 and then stabilization in these revenues. There is no information that would indicate that these revenue sources are going to increase, unless there is a harsh winter or hot summer which would have a positive impact on the Village's receipt of natural gas or electricity taxes.

Tax Increment Financing Redevelopment Fund – Tax Increment Property Taxes

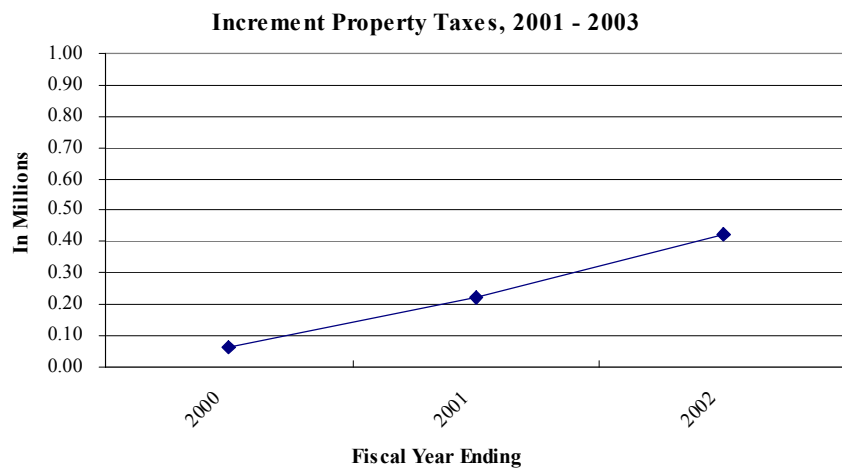
Revenue Description – Tax increment property taxes are derived from the real property located within the TIF District. The Village Board established the TIF District in 2000 to provide financial assistance to promote redevelopment activities and provide resources for capital improvements in the Village Center. The Board felt that without the TIF District, development in the Village Center was unlikely to occur.

Source of Revenue – As a result of the establishment of the District, the equalized assessed value of all properties within this area was frozen at its 1998 value. Taxes generated from this base are paid to the respective taxing bodies. Any increase in the equalized assessed value within the area over the base is provided to the TIF district. The increase in total equalized assessed value in the District, referred to as the “increment” is subject to the same tax rate as properties outside the district. The difference is that the revenues generated by applying the tax rate to the increment flows to the Village to pay for TIF eligible administrative and project expenses. The TIF District has an expected life of 23 years, the District and this Fund, unless extended by an action of the Corporate Authorities of the Village, will terminate in 2023.

Elasticity of Revenue – Property Taxes can be classified as a static revenue source because they are reliant on the underlying value of the real estate that is located in the Village (*real estate values are inelastic because they tend to vary in response to long-term economic trends rather than short-term economic variations*).

Uses of Revenue – The revenue from the TIF District is dedicated to the improvement of the Village Center, either through downtown infrastructure improvements or by providing financial assistance for development activities.

Trend Analysis – The Village has received these revenues for a short period of time (*three years*) and therefore does not have a long history of changes in this revenue source. However, the three year trend has included substantial increases due to a period of increasing property values in the District. The Village has contributed to these increasing property values through loans and grants to businesses for property and façade improvements (*thereby encouraging additional private investment in these properties*).



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
State Shared Revenues (Best Case)	N/A	N/A	\$475,000	\$525,000	\$575,000
State Shared Revenues (Projection)	\$224,858	\$424,585	\$435,000	\$500,000	\$525,000
State Shared Revenues (Worst Case)	N/A	N/A	\$415,000	\$450,000	\$475,000

Basis for Projection – As a result of the development and continuing appreciation of real estate values within the District, the Equalized Assessed Value of the District is expected to continue to increase. In addition, several renovations of properties have taken place during 2004 and this should have a positive effect on property values in the District. Finally, the construction of the Cook Street Plaza project should have a positive impact on the properties surrounding the project as nearby businesses benefit from increased activity in the area.

Debt Service Fund – Property Taxes

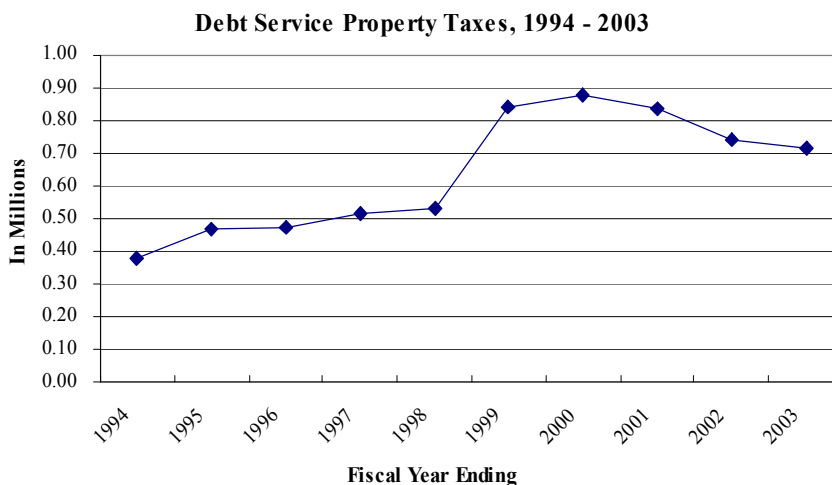
Revenue Description – Property Taxes in the Debt Service Fund are based on voter approved (*by referendum*) issuance of General Obligation Bonds.

Source of Revenue – All real property located in the corporate boundaries of the Village and subject to property taxes. The County Clerk's Office calculates and extends a tax rate that is sufficient to generate the funds needed to cover debt service payments on the Village's two outstanding General Obligation Bond issues.

Elasticity of Revenue – Property Taxes can be classified as a static revenue source because they are reliant on the underlying value of the real estate that is located in the Village (*real estate values are inelastic because they tend to vary in response to long-term economic trends rather than short-term economic variations*).

Utilization – These revenues are used to pay the principal and interest on the Village's General Obligation Bonds.

Trend Analysis – The trend for this revenue source has been a steady decrease since 1999 when the General Obligation Bonds for the Village Facilities Program, which included the construction of the Public Safety Building and Village Hall, were issued. Prior to the issuance of Bonds for the Village Facilities Program, the Village's General Obligation Bond payments had slowly increased as two General Obligation Bond issues from the 1980s matured. In 1999, the General Obligation Bonds issued for the Village Facilities program also included the refunding of all previous issues.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
State Shared Revenues (Best Case)	N/A	N/A	N/A	N/A	N/A
State Shared Revenues (Projection)	\$742,239	\$714,793	\$838,654	\$843,656	\$835,754
State Shared Revenues (Worst Case)	N/A	N/A	N/A	N/A	N/A

Basis for Projection – Debt Service Property Tax Revenues are based on the General Obligation Bond debt service schedules (*these schedules can be reviewed in Appendix B: Legal Debt Margins and Schedules of Existing Debt on Pages 306-315*) and are therefore predictable. The County Clerk's Office will set the Village's Property Tax rates at a level that are sufficient to provide the revenues needed to meet these obligations. One thing that should be noted about Village Property Tax Rates is that approximately 28% of the Village's total property tax rate is attributable to General Obligation Bonds which were approved by voters through a referendum process.

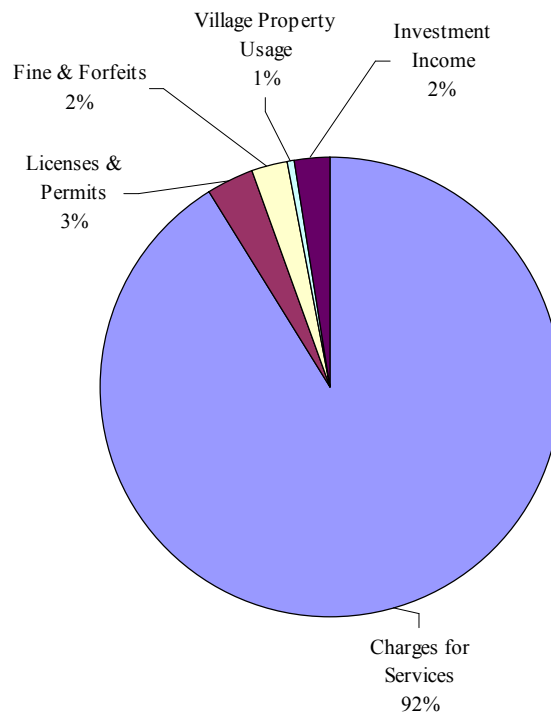
Enterprise Funds

The Village has three enterprise funds; the Water and Sewer Fund, the Recycling and Refuse Fund, and the Motor Vehicle Parking Systems Fund. The major revenue source for each of these Funds is Charges for Services revenue (*i.e., Water and Sewer Sales, Recycling and Refuse Charges, and Parking Fees*). The Village strives to set its utility rates at a point that balances the rates charged to customers with the need to provide resources to cover both operating expenditures and capital improvements.

In terms of the distribution of revenues in the Enterprise Funds, the vast majority of revenues (approximately 92%) are derived from charges for service. Charges for Services are such a large share of these Funds revenue sources because they operate in a fashion similar to a private sector utility company.

Customers of utilities are charged for services provided. However, the goal of the Village's Enterprise Fund utilities is to break even rather than produce a profit. Charges for Services revenues for each Fund are profiled in the following sections because these revenues generate more than \$500,000 in a typical fiscal year.

Enterprise Funds 2005 Distribution of Revenues



Water and Sewer Fund – Charges for Services – Water & Sewer Sales

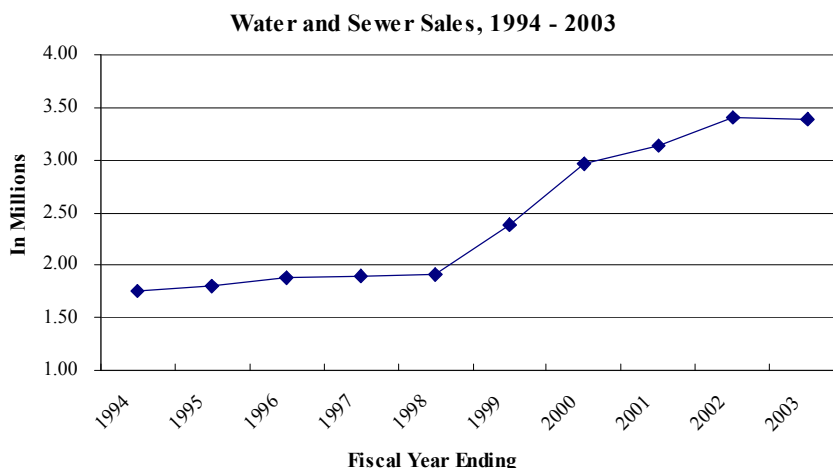
Revenue Description – Water and Sewer Sales are derived from the sales of the Water and Sewer Utility System of the Village.

Source of Revenue – Revenue is based on rates that are charged by the Utility for the consumption of water and the treatment of sewage. The Village strives to set rates at a level that will support both operating and capital expenses necessary to maintain the system now and in the future.

Elasticity of Revenue – The Village considers Water and Sewer Sales to be an elastic revenue source because sales can vary significantly based on the external environment. The rates set for the Fund tend to remain stable in inflation weighted terms over time. Consumption, especially for the water portion of the utility, varies based on environmental factors. The warmth and amount of rain in the summer months has a significant impact on the revenues received by the utility as the customer base adjusts its lawn watering and other water consumption activities accordingly.

Utilization – Water and Sewer Sales are used to support the operating and capital expenses necessary to sustain a well maintained water and sewer system. One of the difficulties in setting these rates is the expense of capital improvements necessary to maintain the water and sewer mains as well as the water production and sewer treatment facilities. Village policy is to set rates so they cover the cost of operating expenses and depreciation. This policy is intended to link the cost of capital improvements, through depreciation which takes into account the expense of previous capital improvements and the remaining useful life of the capital assets produced by previous capital investments, to the water and sewer rates.

Trend Analysis – Water and Sewer Sales were relatively flat in the period from 1994 through 1998. The reason for this trend was the lack of increases in rates during the entire period; all increases in revenues were based solely on increased consumption of water. The lack of increases in Water and Sewer rates during this period had a debilitating effect on the system because the Fund was no longer able to generate sufficient resources for necessary capital improvements. In fact, at the end of this period in 1998 the Fund was having a difficult time supporting operating expenditures. Increases in rates are necessary to keep up with the rate of inflation in overall prices in the economy. The Water and Sewer Fund is especially vulnerable to inflationary costs as three of the major expenditure categories in the Fund include personnel costs, energy costs, and construction costs, all of which tend to increase at a rate that exceeds the rate of inflation. In 1998, the



Village found it necessary to increase usage rates by 20% with a further increase of 10% in 2000, these increases led to the increase in revenues in 1999 and 2000. The Village strongly desires to avoid making these types of large increases in the future and therefore has committed to making small increases equal to inflation to avoid the difficulties involved in making large infrequent increases in rates. In the 2003 and 2004 Biennial Budget, 2.0% increases in each year were provided for. Although 2003 revenues were down slightly from the previous year, this was caused by a drop in water consumption due to a cool, wet summer. The increase in rates that occurred in 2003 helped cushion this decrease in consumption and the financial impact on the Fund was not as pronounced as it could have been.

Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
State Shared Revenues (Best Case)	N/A	N/A	\$3,475,000	\$3,575,000	\$3,675,000
State Shared Revenues (Projection)	\$3,400,021	\$3,392,241	\$3,434,100	\$3,537,500	\$3,640,000
State Shared Revenues (Worst Case)	N/A	N/A	\$3,400,000	\$3,475,000	\$3,575,000

Basis for Projection – Water and Sewer Sales are expected to increase in 2005 and 2006 as 3.0% increases in rates were included in the 2005 and 2006 Biennial Budget. In addition, water consumption and sewage treatment is expected to increase slightly as approximately 50 new houses and condominiums are anticipated to be connected to the system in 2005 and an additional 50 are anticipated to be connected in 2006 (*from developments in the Village and in Inverness at the southeast corner of Dundee and Barrington Roads*). The increase in 2005 and 2006 is also predicated upon the assumption that a return to normal summer weather will occur and this will modestly improve water consumption rates in the Village.

Water and Sewer Fund – Charges for Services – Water & Sewer Connection Charges

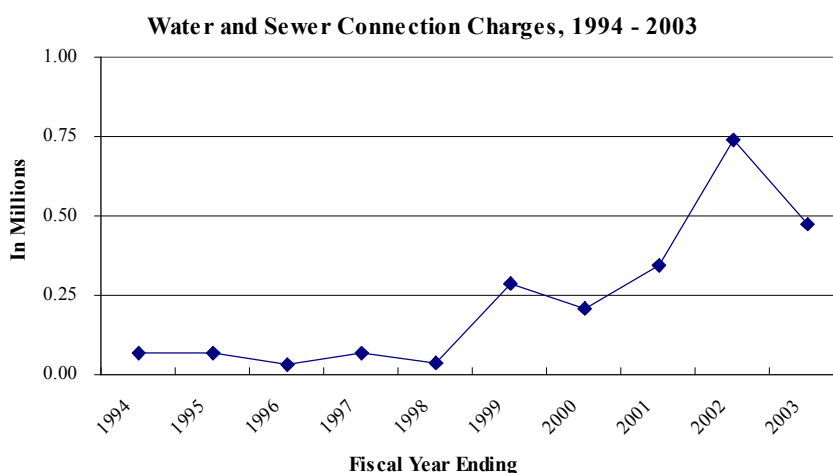
Revenue Description – Charges for connecting commercial or residential buildings to the Village’s Water and Sewer System as well as charges for upgrading existing services for customers.

Source of Revenue – The revenue is based on a connection charge and development activity within the Village or in the immediate surrounding area. It is also based on new and existing customers upgrading water and sewer services.

Elasticity of Revenue – This is considered a very elastic revenue source because it varies widely on an annual basis and is dependent on development activity in the Village and the surrounding area.

Utilization – Connection Charges are utilized by the Village to support the capital expenses of the Water and Sewer Fund as they help to offset depreciation expenses.

Trend Analysis – Connection charge increases in recent years have resulted from residential developments that have occurred in the Village and in the area around Barrington Road and Dundee Avenue which is served by the Water and Sewer Utility but is located in the Village of Inverness. The Village of Inverness approved the construction of a residential development and the Village agreed to provide water and sewer services to this development; connecting these residences to the Village’s system has produced an increase in connection charges. In addition, residential development in the Village has been steady since 1999 and this also provided additional Connection Charges revenues. From 1994 through 1998, limited connections to the Village’s system occurred and this is the reason for the much lower revenues during those years. The Chart clearly demonstrates the elasticity of this revenue source as the revenues vary widely depending on the connection activity in any one particular year.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
State Shared Revenues (Best Case)	N/A	N/A	\$750,000	\$600,000	\$600,000
State Shared Revenues (Projection)	\$739,140	\$471,620	\$700,000	\$400,000	\$400,000
State Shared Revenues (Worst Case)	N/A	N/A	\$575,000	\$200,000	\$200,000

Basis for Projection – Water and Sewer Connection Charges are projected to equal \$400,000 in both 2005 and 2006 because development in the Village and surrounding area is expected to continue and connections to the Village’s system should result from this activity. Approximately 50 new houses and condominiums are anticipated to connect to the system in 2005 and an additional 50 are anticipated to connect in 2006 (*from developments in the Village and in Inverness at the southeast corner of Dundee and Barrington Roads*). Except for this development activity, the upgrading of existing services is expected to remain relatively stable from previous years thereby providing a base level of revenues from connection charges.

Recycling and Refuse Fund – Charges for Services – User Fees

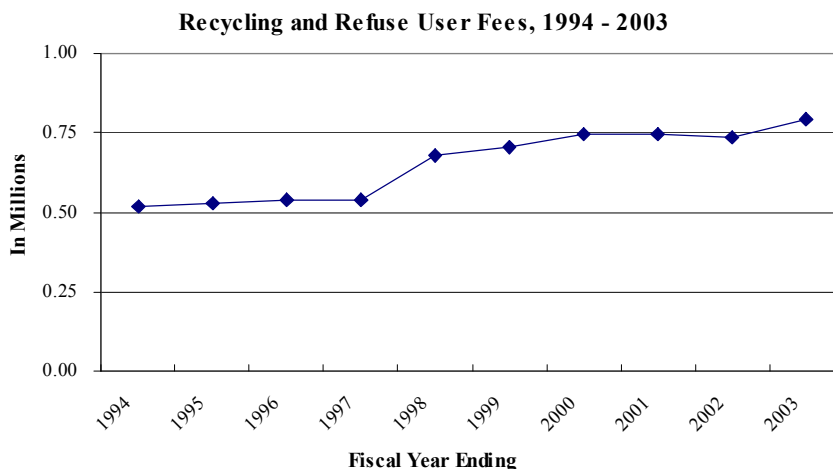
Revenue Description – This revenue is generated from a charge for service for recycling and refuse activities

Source of Revenue – User charges for the administration, collection, and disposal of household and yard waste as well as recycling materials

Elasticity of Revenue – This is considered an inelastic revenue source as residents of the Village use these services every week to dispose of their waste. Increases in this revenue source are largely dependent on increases in rates as the Village is largely built out and will not be adding a great many residences to the potential customer base.

Uses of Revenue – This revenue is the main source of support for the Village's recycling and refuse activities

Trend Analysis – The chart clearly demonstrates the stable nature of this revenue source. The only major increase in this revenue source occurred in 1998 when the Village found it necessary to increase rates in order to provide adequate resources for maintaining operations in the fund. All other increases in this revenue source are largely a result of small increases in the number of customers being served.



Projection for 2005 – 2006

	FY 2002	FY 2003	FY 2004 Projected	FY 2005 Projected	FY 2006 Projected
State Shared Revenues (Best Case)	N/A	N/A	\$845,000	\$945,000	\$985,000
State Shared Revenues (Projection)	\$735,639	\$790,297	\$833,800	\$935,750	\$973,250
State Shared Revenues (Worst Case)	N/A	N/A	\$825,000	\$925,000	\$965,000

Basis for Projection – Increases in Recycling and Refuse User Fees for 2005 and 2006 due to the new contract for collection services approved by the Village Board in 2004 were approved by the Board. Services included in this contract have been expanded to include the provision of two 95 gallon containers, one for household and one for yard waste, and a 65 gallon container for recyclables. The cost increases in the contract associated with the service enhancements necessitated increases in the rates to residential customers. However, because the Village agreed to provide residents with new containers, the annual increases included in the contract are less than what was originally proposed by the collection company. Therefore the Village was able to negotiate a contract that included expanded services with smaller than originally proposed year to year increases in the price of collections. This should help to lower increases in the price of collections in the future. The increase in rates to offset the expenses associated with the new contract will take effect in 2005.

Motor Vehicle Parking Fund – Licenses and Permits

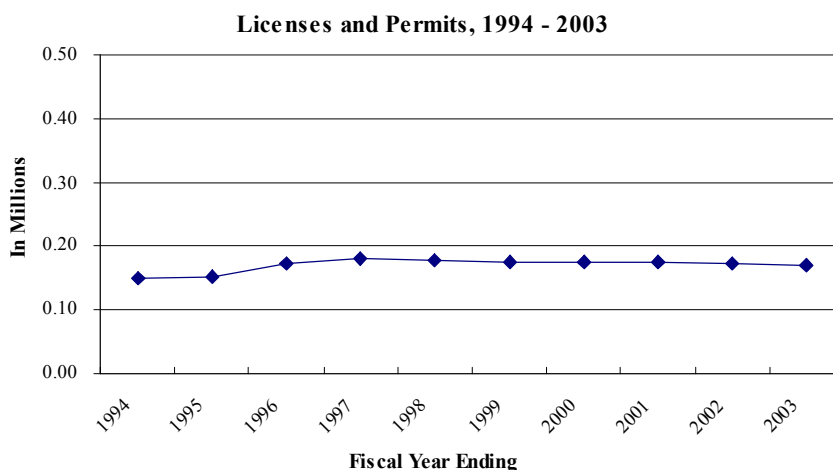
Revenue Description – Licenses and Permits revenue is generated by commuters and residents parking in Village owned parking lots in the central business district and at the Train Station.

Source of Revenue – Licenses and permits purchased by commuters, residents, and employers and employees for the privilege of parking their vehicles in Village owned parking lots.

Elasticity of Revenue – This revenue source is considered inelastic because it has been relatively stable over time and the demand for parking in the Village is greater than the supply of available spaces in Village owned lots, thereby assuring that there will always be an adequate demand for spaces in the Village owned lots.

Utilization – This revenue is used by the Village to support the administrative, operating, and capital costs involved in providing the parking system for commuters, residents, employers, and employees.

Trend Analysis – The chart clearly demonstrates the stability in this revenue source. The only increase occurred in 1996 when revenues went from approximately \$150,000 per year to a range of \$170,000 to \$180,000 per year. License and permit revenues have remained fairly constant since that increase. This does make it difficult to support operations in the Fund as this revenue source is fixed but operating expenses are impacted by inflationary pressures.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Projected</u>	<u>FY 2005 Projected</u>	<u>FY 2006 Projected</u>
Licenses and Permits (Best Case)	N/A	N/A	\$180,000	\$205,000	\$205,000
Licenses and Permits (Projection)	\$172,051	\$169,266	\$175,500	\$200,000	\$200,000
Licenses and Permit (Worst Case)	N/A	N/A	\$175,000	\$190,000	\$190,000

Basis for Projection – License and permit revenues are expected to increase in 2005 and 2006 to approximately \$200,000 as the renovation of the Village's Train Station has provided the Village with the opportunity to free up a number of additional parking spaces that will increase revenues beginning in 2005. In addition, the Village increased permit fees for the BACOG commuter parking lot which will also help generate additional revenues. After the increase in 2005, this revenue source is expected to remain stable, as in previous years, because no increases in license and permit fees are anticipated during 2005 and 2006.

Motor Vehicle Parking Fund – Charges for Services – Fare Boxes and Meters

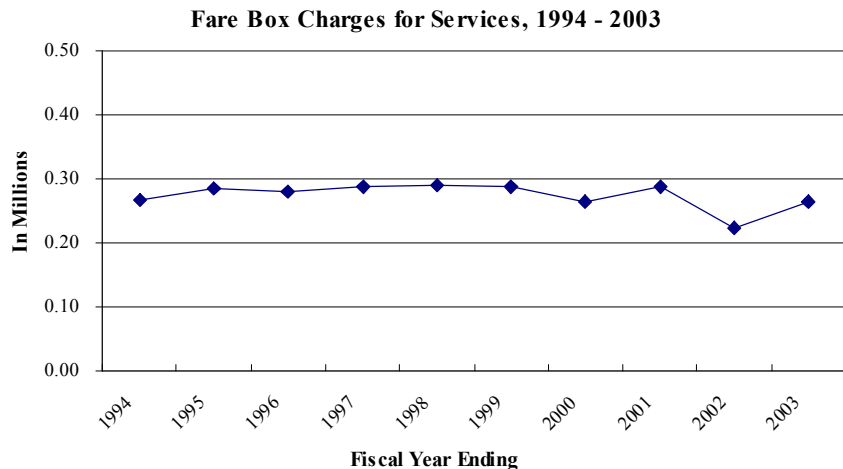
Revenue Description – Revenue from commuter daily parking fees at the Village's train station.

Source of Revenue – Fees charged commuters who are using Village owned parking lots at the Train Station

Elasticity of Revenue – This revenue source is considered inelastic because it has been relatively stable over time and the demand for parking in the Village is greater than the supply of available spaces in Village owned lots, thereby assuring that there will always be an adequate demand for spaces in the Village owned lots.

Utilization – This revenue is used by the Village to support the administrative, operating, and capital costs involved in providing the parking system for commuters.

Trend Analysis – Once again, this revenue source is very stable and has remained in the range of \$260,000 to \$290,000 every year out of the past ten except for 2002. The reason for the decrease in 2002 is the reconstruction of the commuter Train Station which impacted the number of parking spaces available for commuter use as construction staging occurred in a portion of the commuter lots.



Projection for 2005 – 2006

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u> <u>Projected</u>	<u>FY 2005</u> <u>Projected</u>	<u>FY 2006</u> <u>Projected</u>
State Shared Revenues (Best Case)	N/A	N/A	\$290,000	\$315,000	\$315,000
State Shared Revenues (Projection)	\$222,342	\$264,072	\$285,000	\$310,000	\$310,000
State Shared Revenues (Worst Case)	N/A	N/A	\$265,000	\$285,000	\$285,000

Basis for Projection – Fare Box Charges for Services revenues are expected to increase in 2005 and 2006 to approximately \$310,000 as the renovation of the Village's Train Station has provided the Village with the opportunity to free up a number of additional parking spaces that will increase revenues beginning in 2005. After the increase in 2005, this revenue source is expected to remain stable, as in previous years, because no increases in license and permit fees are anticipated during 2005 and 2006.